

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Clay County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$16,268 from the prior year, resulting in excess fees of \$72,311 as of December 31, 2006. Revenues increased by \$354,284 from the prior year and expenditures increased by \$338,016.

Debt Obligations:

Total debt principal as of December 31, 2006 was \$4,578. Future collections of \$4,578 are needed over the next four (4) years to pay all debt principal and interest.

Report Comments:

- The County Clerk Should Monitor The Budget And Make Amendments As Necessary
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Clay County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2007, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Monitor The Budget And Make Amendments As Necessary
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 13, 2007

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	9,290	
Fiscal Court			32,847
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	536,098	
Usage Tax		1,094,216	
Tangible Personal Property Tax		960,103	
Other-			
Fish and Game Licenses		3,862	
Marriage Licenses		7,004	
Occupational Licenses		511	
Entertainment Permits		60	
Deed Transfer Tax		12,907	
Delinquent Tax		558,415	
		<hr/>	3,173,176
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		8,523	
Real Estate Mortgages		5,708	
Chattel Mortgages and Financing Statements		71,178	
Powers of Attorney		1,038	
Affordable Housing Trust Fund		8,352	
Lien Fees		7,016	
All Other Recordings		32,647	
Charges for Other Services-			
Copywork		18,355	
		<hr/>	152,817
Other:			
Miscellaneous		2,437	
Refunds		5,051	
		<hr/>	7,488
Interest Earned			<hr/> 1,068
Total Revenues			3,376,686

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 432,249

Usage Tax 1,061,146

Tangible Personal Property Tax 437,329

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,712

Delinquent Tax 70,492

Legal Process Tax 16,596

Affordable Housing Trust Fund 8,352 \$ 2,029,876

Payments to Fiscal Court:

Tangible Personal Property Tax 86,391

Delinquent Tax 49,933

Deed Transfer Tax 12,261

Occupational Licenses 411 148,996

Payments to Other Districts:

Tangible Personal Property Tax 397,980

Delinquent Tax 295,956 693,936

Payments to Sheriff

4,300

Payments to County Attorney

88,671

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 170,479

Part-Time Salaries 7,800

Overtime 5,123

Employee Benefits-

Employer's Share Social Security 19,260

Contracted Services-

Printing and Binding 210

Materials and Supplies-

Office Supplies 26,775

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel \$ 4,912

Dues 3,197

Postage 4,794

Miscellaneous 3,979

Capital Outlay-

Office Equipment 9,563 \$ 256,092

Debt Service:

Lease Purchases 1,308

Total Expenditures \$ 3,223,179

Net Revenues 153,507

Less: Statutory Maximum 74,294

Excess Fees 79,213

Less: Expense Allowance 3,600

Training Incentive Benefit 3,302 6,902

Excess Fees Due County for 2006 72,311

Payments to Fiscal Court - January 11, 2007 72,292

- February 24, 2007 19 72,311

Balance Due Fiscal Court at Completion of Audit \$ 0

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 4. Lease

The Office of the County Clerk was committed to a lease agreement with US Bancorp for a postage machine and scale. The agreement requires a monthly payment of \$109 for 72 months to be completed on June 1, 2010. The total balance of the agreement was \$4,578 as of December 31, 2006.

The Clerk's office was committed to the following lease agreement as of December 31, 2006:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2006
Postate Machine and Scale	\$ 109	72 months	6/1/2010	\$ 4,578

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clay County Clerk for the year ended December 31, 2006, and have issued our report thereon dated July 13, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clay County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clay County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Monitor The Budget And Make Amendments As Necessary

The Clay County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 13, 2007

COMMENTS AND RECOMMENDATIONS

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The County Clerk Should Monitor The Budget And Make Amendments As Necessary

The County Clerk did not monitor the budget to ensure that disbursements during the year were within the budget. The Clerk overspent the approved 2006 budget by \$629,435. We recommend the Clerk monitor the budget and make amendments to the budget as necessary to ensure that disbursements are within the approved budget.

County Clerk's Response: We had a large Tax Collection. I just forgot about making the amendment to the budget.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The County Clerk's Office Lacks Adequate Segregation Of Duties

During review of internal controls, we noted that the County Clerk's office lacks adequate segregation of duties. This is a significant deficiency in the County Clerk's internal control structure. The County Clerk's bookkeeper receives cash, prepares part of the daily checkout, posts revenues and expenditures to the ledgers, prepares all disbursements, prepares payroll, investigates insufficient fund checks, prepares monthly reconciliations, and all monthly reports. We recommend the County Clerk segregate duties or strengthen the internal controls of his office by instituting compensating controls such as:

- The County Clerk should perform surprise cash counts; documented by initialing the deputy's checkout sheet.
- The County Clerk should compare the daily checkout to the bank deposit slip and to the receipts ledger and document the comparison by initialing the checkout, deposit slip and ledger.
- After the County Clerk compares the invoice to the check prepared by the bookkeeper, he could document this by initialing the invoice.
- After comparing employee time cards and rates to the payroll checks, the clerk could document this by initialing the check stub and payroll report or expenditure ledger,
- All checks should have two (2) signatures, with one being the County Clerk's.
- The County Clerk should periodically review the insufficient funds investigated by the bookkeeper. This could be documented by the clerk initialing the copy of the check or letter sent to the customer.
- After the County Clerk reviews the monthly report, this could be documented by initialing the receipts and disbursements ledgers and the monthly report.
- After the Clerk compares the monthly bank reconciliation to the balance per ledgers, this could be documented by initialing the reconciliation and the ledgers.

County Clerk's Response: With a county this small and lack of employees, I think it is impossible. But we will try to implement these changes when possible.

